

1812



1924

Economic Conditions  
Governmental Finance  
United States Securities

New York, October, 1924

A Chapter of War History

**T**HE September Letter referred to certain current expressions of opinion to the effect that international loans and international bankers were often responsible for wars, and in the course of our comments said:

The United States government never has gone to war to protect the investments of its citizens in foreign countries, nor has war ever been made by any country that we know of in behalf of the investments of its people in foreign countries. Foreign loans and foreign trade have been subjects of disagreement and controversy: they are points of contact, and wherever people come in contact disagreements are likely to arise, antagonisms may develop, and where the antagonisms develop along national lines they may lead to war. Economic considerations are a very important factor in human affairs, within countries as well as between countries, and are likely to be as long as men strive for economic gains, but it is impossible to name a war of any consequence for the collection of debt. \* \* \*

It is safe to say, not only that no war ever has been begun for the collection of debt, but that no war ever has been due to the influence of bankers or private financial interests. The people who imagine the contrary have a theory that conditions are more favorable to such interests in a period of wealth-destruction than in a period of general wealth-accumulation, which of course is fundamentally untrue.

In response to the foregoing we have received a copy of the same with the first sentence of the second paragraph underlined, accompanied by the following letter:

A. L. MEYER  
5208 Cass Street

Omaha, Nebraska  
9/19/24

National City Bank,  
New York.

Dear Sirs:

Do you really mean to assert in the underlined sentence of your September issue on page 149 enclosed, that the house of Morgan & Co. and the American bankers, who had advanced some 500 millions or more to the Allies, did *not* do their utmost in the winter of 1916/17 to drive this country into the war on the side of the Allies, in order to secure these allied debts? Why did U. S. Treas. McAdoo pay Morgan & Co. out of the U. S. Treasury almost instantly upon our declaration of war, what they had advanced to the Allies, thus assuming that burden without security to the U. S.?

If you have any data to contradict that conclusion, held by many millions of people, and which seems to be justified by much circumstantial, if not documentary evidence, it might not be amiss to present it in your next Letter.

Respectfully yours,  
(Signed) A. L. MEYER.

There is no basis or warrant whatever for the implications carried by the inquiries of this letter.

The Anglo-French five-year loan of \$500,000,000 which was floated in this country in October, 1915, was handled by an organization of bankers and investment houses headed by J. P. Morgan & Co. and comprising 1,570 subscribing houses, located in all parts of the country. These bankers, however, were not the only participants, for there were sub-participants back of them. These houses sold the bonds to investors, this widespread organization giving them a like distribution over the country. This issue passed out of the hands of the bankers at once. Bankers who are bond distributors buy bonds as a merchant buys goods, for the purpose of selling them, and sell them as quickly as possible in order to be in position to repeat the operation.

This issue of bonds was paid off at maturity, October 15, 1920, the British Government paying its one-half in full and the French Government floating a new loan of \$100,000,000. As these payments were made to private holders it is evident that the United States Government never had any participation in this loan.

The loan to which the above letter probably refers was a demand loan held by a smaller group of bankers at the time the United States entered the war, April, 1917. This loan has had some publicity through a reference made to it by the late Walter H. Page, at that time United States Ambassador to Great Britain, in Volume II of his "Life and Letters," pp. 261, 272-273, as follows:

And we came in in the nick of time for them—in very truth. If we hadn't, their exchange would have gone down soon and they know it. I shall never forget the afternoon I spent with Mr. Balfour and Mr. Bonar Law on that subject. \* \* \*

The matter that was chiefly pressing at the time of the Balfour visit was the fact that the British balances in the New York banks were in a serious condition. It should always be remembered, however, that Great Britain was financing not only herself, but her Allies, and that the difficult condition in which she now found herself was caused by the not too considerate demands of the nations with which she was allied in the war. Thus by April 6, 1917, Great Britain had overdrawn her account with J. P. Morgan to the

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extent of \$400,000,000 and had no cash available with which to meet this overdraft. This obligation had been incurred in the purchase of supplies, both for Great Britain and the allied governments; and securities, largely British owned stocks and bonds, had been deposited to protect the bankers. The money was now coming due; if the obligations were not met, the credit of Great Britain in this country would reach the vanishing point. Though at first there was a slight misunderstanding about this matter, the American Government finally paid this over-draft out of the proceeds of the first Liberty Loan. This act saved the credit of the allied countries; it was, of course, only the beginning of the financial support that America brought to the allied cause; the advances that were afterward furnished from the American Treasury made possible the purchases of food and supplies in enormous quantities.

As this Bank was a participant to an important extent in this loan, we are in position to know how it was handled and how it was liquidated. Mr. Page was not attempting to write a detailed or exact account of the transaction, nor were his informants attempting to give him such an account, and the statement as given is not complete or strictly accurate. In the first place, the loan was not in the form of an overdraft, which is a common form of loan in Great Britain but not permitted by American banking law. It was a demand loan, secured in the ratio of two to one by the deposit of high class American securities which the British Government had bought or borrowed from British owners. Mr. Page refers to this collateral.

A few words of explanation about these securities is necessary. After the exhaustion of the proceeds of the Anglo-French loan of \$500,000,000 the British Government continued to cover its purchases in this country by shipments of gold and by sales in this market of American securities which it procured from British holders. Laws were passed by the British Parliament creating inducements for the British owners of such securities to convey them either temporarily or permanently to the British Government, for the purpose of aiding in financing its purchases in the United States, and very large amounts were obtained in this manner.

These securities, which had been under accumulation by British investors—insurance companies, investment companies, individual investors, etc.—in all the years since British investments in this country began, were of a very high class—many of them underlying bonds of the oldest and strongest railroads, and in general a collection of securities which for the most part had been infrequently seen in the markets in recent years, being held as permanent investments.

These securities were sent to the New York representatives of the British Treasury, J. P. Morgan & Co., to be sold or used as collateral for loans. Several time-loans were issued on such security and distributed on the public market, and in all more than \$1,000,000,000 of

the securities were sold by J. P. Morgan & Co. Obviously, however, sales had to be made at low prices compared with the prices which these securities had commanded before the war, and it was desirable that they should not be pressed for sale faster than the market could absorb them without depressing prices still further. To avoid doing this, the demand loan was resorted to as affording some latitude in making sales and in the selection of dates for offering time-loans to the public. The demand loan was shared in by a selected list of the larger banks, in and outside of New York. At the time the United States entered the war this loan was approximately \$345,000,000, and was secured by collateral of the kind described above, having a market value at the time of about \$700,000,000, and readily salable.

When the United States entered the war the Government at Washington immediately assumed supervision over the security markets in order to mobilize the financial resources of the country in the most effective manner. It did not want flotations, even by the governments associated with it in the war, which might interfere with its own plans for bond offerings, and inasmuch as it was necessary for the purchases of those governments in this country to continue, it was quickly decided that all interests would be best served by having the United States Government finance such expenditures itself. That was the end of foreign flotations in this country until after the war.

By the time the United States Treasury was ready to take over the full burden of payments on account of British purchases, which was a month or so after the United States declared war, the demand loan had increased to approximately \$400,000,000, which was the high point, with collateral still approximately double that amount.

The statement that this loan was taken over by the United States Treasury is a mistake, so far as the bankers have any knowledge of it. They never approached the Treasury or had any negotiations with the Treasury on the subject, nor did they ever make any demand on the British Treasury for the payment of the loan. It was paid gradually, from funds accumulated by the British Treasury with J. P. Morgan & Co., but this account was constantly receiving funds from various sources, as the sale of securities, the sale of exchange, transfers from a Bank of England account with the Federal Reserve Bank of New York, etc., and at the same time was being drawn upon for current payments by the British disbursing officials. That the United States Treasury came to the support of the British Treasury at that time, is, of course, common knowledge, and that some of the funds used in liquidating this loan may have come from that source is

possible. As to this we have no knowledge, but the payment of the loan was in no degree dependent upon receipts from that source.

The essential facts are that this loan was amply secured with collateral of American origin, that the lending bankers had no occasion for anxiety about it, and that they did not turn it over to the United States Treasury. Its payment was not dependent upon this country's entering the war, or upon any resources of Great Britain other than the collateral. There never was a time in the life of the loan when it could not have been liquidated from the proceeds of the collateral.

Of course, the whole miserable story of the influence of the bankers for the entrance of this country into the war falls when the alleged motive for its disappears. It had its origin somewhere among the people who like to believe that sort of thing. The master mind of the war policy unquestionably was that of the President, whose character and memory need no defense against the calumny.

### **General Business Conditions**

There is apparent in business circles some disappointment that the industrial rally which was quite noticeable in August did not develop into a more pronounced movement in September. We think, however, all things considered, that the volume of trade in recent months and the present trend in industry should be regarded as quite satisfactory. The falling off of production during the past six months has been for the most part in lines that were very active in the preceding six months and which evidently had accumulated a surplus of goods. In some of these, notably iron and steel, productive capacity has been increased in the last ten years to such an extent that it need not be deemed discouraging if it is not kept fully employed all the time. Coal-mining has been notoriously over-developed and nothing but acute depression will ever give it normal activity. Nothing in the situation should be regarded as discouraging which is plainly necessary to place it on a sound basis. The surplus stocks of coal have now been for the most part worked off, and coal production is on a larger scale than at any time since last Winter, but the fundamental trouble of too many mines, too many miners and too much idle time charged into the price of coal has not yet been remedied.

The automobile industry has been growing so fast that a check was fully due. The industry has never had what could be called a settled and stable production, and is not a criterion of general business conditions.

The cotton goods industry has been affected by an unsettled state of the raw material market, which in turn has been due to small supplies and unusual dependence upon the grow-

ing crop. Notwithstanding the light production of goods in the last six months, goods have been plentiful enough to prevent price-advances and keep the industry on an unprofitable basis. Merchants have insisted that consumers would not pay the prices which manufacturers said they must have to cover their costs, and have refused to buy except in the most piece-meal manner. Even now, two months after what is called the end of the crop year, there is much uncertainty about the size of the crop. Fluctuations have been wide, the price dropping from around 30 cents at the beginning of August to below 22 cents per pound on September 16, on a prospect of over 13,000,000 bales, and then recovering to 25 cents on the government estimate of 12,600,000 bales. Mill authorities have said that 20-cent cotton was necessary to enable them to sell the goods made from it.

While this argument has been going on for six or eight months, stocks of goods undoubtedly have been diminishing, and even if cotton costs 25 cents it is certain that there must be an increase in mill activity.

With the price on the way down from 25 to 22 cents, the mills, particularly in the South, somewhat increased their operations. The Northern mills have renewed their efforts to obtain wage-concessions, and the Amoskeag mills have reached an amicable arrangement with their employes for a reduction of 10 per cent. This company, one of the oldest and largest in the industry, like many others, showed a loss on last year's operations.

Business has not been much better in woolen and worsted goods than in cotton, and there is not so good an excuse to offer, for there has been no prospect of cheaper wool to hold off buyers. Trade has been slow, although manufacturers have cut their margins to the quick, as indicated by the action of the largest factor in the industry in passing the dividend on its common stock. Here, also, however, there is the consolation that stocks of goods have been diminishing and that a turn cannot be long delayed.

The shoe industry has not been right for some time, but here there has been decided recovery. Wage concessions have been made recently in the principal Massachusetts centers and there is a general report of better business.

These are the worst spots in industry, although copper and oil are entitled to mention when the roll of the depressed is called. Both are close to the lowest prices on record. In both cases, however, this is not so much due to lack of demand as to increased and apparently uncontrollable production. The consumption of copper in this country in the first six months of this year is said to have been no less than in the corresponding period of

last year. In the case of oil it is the old story of supplies accumulating beyond the ability of producers and middlemen to carry them. Experience in all lines teaches that the only cure for such a situation is to have prices drop to a point where part of the production becomes unprofitable. However, lower prices resulting from a production which overruns normal demands is not a symptom of industrial depression.

It is a notable fact that throughout the past six months the volume of bank clearings or debits has been running somewhat ahead of last year, and although the loadings of revenue-freight have been under last year, the deficit has been largely in coal, and a few industries recognized as below normal. Moreover, the aggregate of shipments has been increasing of late and is running close to those of the corresponding weeks of last year. Loadings of merchandise and less-than-car-lot freight, which are considered particularly significant of trade conditions are making new records.

Apparently industry on the whole has been better than holding its own, and the reports as to the movement of merchandise and prospects for trade are almost everywhere better. Of course if these reports as to increasing distribution are well-founded, industry will inevitably be quickened.

### **Fundamental Considerations**

There is a tendency in judging the business situation by reports from individual industries to get so close to it that there is a lack of perspective and danger of not seeing the woods for the trees. While it is sometimes the case that the state of activity in given industries is dominated for the time being by conditions within them, as in the case of coal mining and cotton goods production in recent months, the most potential influences usually are of a general character, affecting all industries and causing reactions from each upon all the others. Local conditions, or conditions peculiar to particular industries, are usually temporary, giving way either to adjustments within or to the influence of a rising general tide of prosperity.

At the present time certain developments of great importance are to be noted which make for the inauguration of a period of general prosperity. A pronounced change for the better has come over the agricultural situation. The final estimates of all the crops are better than the early estimates. This is especially true of wheat, and the wheat-growing sections have been the ones that have suffered most in the depression since 1920. Moreover, owing to the smaller Canadian production and a light harvest in Europe, the increased yield in this country is accompanied by higher prices.

The greatest drawback to stable industrial conditions in this country since 1920 has been the unbalanced relations between agriculture and the other industries, which has limited the purchasing power of the largest single group of consumers. That situation is in the way of being very much mitigated if not wholly relieved.

Upon two previous occasions the recovery of agriculture from protracted periods of depression has marked the beginning of the most notable periods of prosperity this country ever experienced. One of these occasions was in 1877-78 when good crops and good prices turned the foreign trade balance in our favor, assured the success of the government's policy of specie resumption on January 1, 1879, and inaugurated the great period of railroad construction and industrial development from 1880 to 1892. The other was in 1897-98, when good crops—particularly of wheat—and a recovery of prices were the leading factor in lifting us out of the Bryan era of depression, and in inaugurating the wonderful decade of industrial development which began in 1898-99. The "come back" of agriculture upon these two occasions was followed by periods of industrial growth which each in turn eclipsed anything in the previous history of the country. We would emphasize that no previous experience had prepared even the most capable business men to anticipate the growth that was coming. Everybody who planned for the future underestimated its requirements.

The greatest obstacle, however, to the establishment of stable and prosperous conditions has been the unsettled state of Europe, for there is reason to believe that it has been largely responsible for the agricultural depression. And now we have the prospect that the improving conditions in agriculture will be supported by the recovery of industry in Europe, and that the reviving industries of all countries by increasing the purchasing-power of all populations will supply each other with markets. The highest degree of prosperity is to be had when all countries are prosperous together, and the conditions are now favorable for a general revival. In our opinion the people who are thinking chiefly of the menace of reviving competition, are thinking of consumption as a fixed quantity, whereas consumption is a highly variable quantity, depending altogether upon well-balanced production.

The only remaining economic condition that would seem to be necessary for the inauguration of a period of prosperity more notable than any in the past is an abundance of liquid capital and credit, available to support enterprises in any and every direction in which development is needed. That requisite also is present. Never has the business community been more

amply equipped with financial resources, and the normal development of the past ten years has been held back by the war.

To sum up so far as economic conditions are concerned, the outlook today for a broad and substantial industrial revival is more favorable than at any time since the war.

#### **The Cloud Over Business**

What occasion then is there for doubt or hesitation, and why does not business go forward with the confidence which seems to be warranted? The most reasonable explanation is to be found in the inharmonious relations that have been developing in the industrial organization. No matter what may be the size of an organization, from a football team to the all-inclusive industrial organization by which society supplies its wants, it cannot achieve success or prosperity without team-work. Instead of team-work in the social and industrial organization we have it split up into groups and blocs and factions, each so intent upon advancing its particular interests that it gives no thought to the common interests, which are of vastly greater importance to all. The efficiency of the organization is enormously reduced by friction.

Moreover, the point has been reached where general confidence in the stability, if not in the permanency, of the existing order is impaired. With the growth of population and the increase of specialization, the organization becomes more intricate, more delicately balanced, more dependent upon mutual confidence and mutual loyalty, but increasingly subject to misunderstandings, misrepresentation and spasmodic swings of public opinion.

It is evident that the forces making for disorganization and for the overthrow of the existing order of individual liberty and individual initiative have been gaining ground in recent years, and this year are making a more formidable showing than they have been able to make heretofore. This has been accomplished by a ceaseless campaign of misrepresentation and falsehood, until repetition and reiteration have misled millions of honest and well-intentioned people. It is true, as often cheerfully said, that the nation has been holding elections for 140 years and not been ruined by any of them down to this time, but even so it has had some serious experiences and narrow escapes; moreover, it has never faced so radical an attack upon its institutions as this which has been developing in recent years. Moreover, if the people who are making this attack believe the misrepresentations which their leaders utter it is difficult to see how they could fail to adopt the radical measures they advocate, in the event of their coming to power.

That the radical movement has any chance of carrying the country this year nobody believes, but that there is a possibility of no

electoral choice, which would involve a protracted contest in the two houses of Congress with uncertain results must be recognized. Moreover, it would be unfortunate to have this radical coalition become even the second party in numerical strength, because it would be a constant drag upon progress and menace to security.

It is deplorable that an industry of such vital importance to the country as the transportation industry, should be made a target of attack, in a national campaign, and even more extraordinary that its employees in large numbers, as represented by the officials of some of their organizations, should join in the attack. It means the cultivation of antagonism where in the interest of the public service there should be cooperation. The attack on the railroads, however, is only part of a general attack upon the private management and ownership of industry.

These conditions are not favorable to industrial efficiency or progress, but are depressing to the spirit of confidence and enterprise which has been characteristic of all our great periods of development.

#### **Election Issues**

The attempt to create a radical party in this country by gathering together all the varied and nondescript elements of dissent which are to be found in any society, and of enlisting by temporary and different inducements important bodies of voters who have been accustomed to act with the two old parties, is being made under conditions unusually favorable. The Socialist group was split by the war and the Bolshevik movement, and had no chance of making even a respectable showing by itself. It was quite willing to fall into any movement which was going its way so far as to make an attack on the Supreme Court, advocate government ownership of railroads and mineral wealth, and propose a general extension of governmental authority over business.

#### **The American Federation of Labor**

Organized labor under the leadership of Mr. Gompers has repudiated bolshevism and held off, at least officially, from the milder types of socialism until now, stoutly declaring that it wanted the government to keep its hands off of industry. In a signed article in the American Federationist of May, 1923, Mr. Gompers said, in part:

Self-government, more or less democratic and tending to become more so, is developing constantly in the United States entirely apart from the political government which is customarily regarded as constituting all government. It is becoming more and more evident to thinking men and women that there is a line beyond which the competency of political government ceases; that is, it ceases unless we are to agree to embark upon state socialism.

State socialism is repugnant to the American mind for a great many reasons. Americans generally prefer to carve out the future in freedom. They are unwilling to accept the idea of an all-powerful state. It is the American idea that the people shall order the state and shape its course; not that the state shall order the lives of the people, fitting them into niches to suit a bureaucratic card index.

Changes in civilization require changes in laws. Industrial society is trying to look out for itself; trying to fend off the unenlightened efforts of political government to hamper and restrict and to undo.

Institutions try to perpetuate themselves. Political government seeks to retain all power and all functions. Our political government cannot serve in all capacities without strangling the very thing which it was devised to save—human liberty.

At its last annual convention, in October, 1923, the meeting from which the bolshevistic element was summarily ejected, the following was one of the declarations of principles adopted:

The largest freedom of action, the freest play of individual initiative and genius in industry cannot be had under the shadow of constant incompetent government interference, meddlesomeness and restriction.

The continuing clamor for extension of state regulatory powers, under the guise of reform and deliverance from evil, can but lead into greater confusion and more hopeless entanglements. Trade unionism must lead the way for true progress, even at the cost of being branded as reactionary by those who do little save propound formulas based upon Utopian thought and devoid of the benefit of experience and of any cognizance of our fundamental social structure, our industrial life or our national characteristics. We advocate organization of all wage-earners and of all useful and productive elements.

Moreover, the Federation of Labor has frequently given recognition to the steady advance in the standard of living and improvement in the conditions surrounding the workers, in doing so naturally taking most of the credit to itself, but all quite different in tone from the declarations of the movement in which it has now joined. Here is one of its declarations, made in the year before the war, and nobody will claim that organized labor has not held its own since then:

Not only has there been progress made in numbers, but for the increasing numbers there have been increases in wages, shortening of the workday, improvement in sanitary and general conditions under which the work is done, better protection for the life and health of the workers. These are fundamental factors in determining the standard of living prevailing among working people—the greater proportion of all the people. The test of the degree of civilization of any nation is the standard of living generally prevailing. There can be no question of the statement that the general standard of living among Americans has been raised year after year. The things which today are held to be necessities were deemed luxuries a decade ago.

#### Reasons for the Federation's Attitude

From this it would seem that the Federation has had a good deal of confidence in society as it is and in labor's ability to get its fair share of an increasing industrial product. There is some difference of opinion as to just why it has joined hands with the socialistic elements who seek to radically change the

social order. The opinion is held in some quarters that the radical element in the Federation which for some time has been plotting against Mr. Gompers was pressing him so hard that he thought it politic to yield in this instance. On the other hand Mr. Gompers and other spokesmen of the Federation, not all of whom are as conservative as he, insist that the endorsement of Senator La Follette's candidacy does not commit the organization to a third party and does not signify its entrance into politics, being simply a personal endorsement of an individual, such as the Federation has been accustomed to give to candidates with records satisfactory to it. It is well known of course that the Federation keeps close tab on everybody in public life, has been in politics for a long time to the extent of supporting candidates whom it regarded as "friendly" and exerting itself to defeat candidates whom it did not so classify.

There is some reason for thinking that in addition to the fact that Senator La Follette is personally satisfactory to the Federation chiefs, Mr. Gompers may have been influenced to some extent by the famous telegram which he received from Calvin Coolidge, Governor of Massachusetts, at the time of the policemen's strike in Boston in 1919. The city of Boston was defenceless and on the verge of anarchy when Governor Coolidge called out the state troops to maintain order, which of course broke the strike. Mr. Gompers intervened with a telegram asking for negotiations and upholding the right to strike. The Governor's reply was in the terse and definite style with which the whole country has since become familiar. He said:

There is no right to strike against the public safety by anybody, anywhere, any time.

That ended the argument as conclusively as the Governor's action ended the strike, and there has been no suggestion of a police strike in this country since.

President Woodrow Wilson characterized the strike as a "crime against civilization," and when Governor Coolidge was re-elected by a very large plurality the President telegraphed his congratulations, acclaiming the result as "a victory for law and order," and adding, "when that is the issue all Americans must stand together."

It is possible that Mr. Gompers never has been convinced that he was wrong and Governor Coolidge right on that issue, and there never will be a better opportunity for the American people to express their opinion upon it than at the polls on November 4th next.

However, the fact should not be minimized that Mr. Gompers and the official organization of the Federation has endorsed the La Follette candidacy and are making every effort in their power to deliver the votes of the

membership in its support. The membership is a large and important body of citizens, and if convinced that the interests of labor as a class are really at stake, no doubt the appeals of the officials would be very influential.

#### **The Brotherhoods**

Outside of the Federation of Labor the La Follette ticket has enlisted important support from some of the railroad brotherhoods, notably the locomotive engineers, firemen, conductors and shop crafts, who figured conspicuously in the nominating convention. These are groups of men quite capable of doing their own thinking as individuals, and not likely to vote as a unit; nevertheless, the fact that the leaders are undertaking to throw the vote of the organizations shows that they have a policy, and it is a matter of interest to know what that policy is and how it will affect the rest of the community.

It is safe to say that the Brotherhood of Locomotive Engineers has not turned radical, and that in joining forces with the socialists it has in view some purpose of more immediate benefit to the engineers than anything socialism has to offer.

The locomotive engineers have been called the aristocracy of labor, and although bricklayers and plasterers have been challenging their position of late that is probably a passing circumstance. There is no better illustration of the folly of the theory of equal rewards, regardless of service or skill or responsibilities than is afforded by contemplating equal pay for an engineer with a common laborer. And the firemen are on the way to be engineers and have the same pride in the profession and responsibilities as enginemen. Neither are of the material from which socialists are likely to be recruited. Nevertheless they are working with them this year.

#### **The Farmer Element**

However, with all the support that the Federation of Labor and the co-operating brotherhoods are able to give, the third ticket will carry no states and get nowhere without the farmer vote. The chance of throwing the election into Congress depends upon the farmer vote, and the hopes of the management center upon the farmers in the Middle West and on the Pacific Coast, who have been suffering from low prices for their products and high prices for the goods and services they have to buy. The third party politicians, the Debs socialists, the Federation and the Brotherhoods are all counting on the farmer for the fruition of their plans, and it is pertinent to ask what their plans will do for or to the farmer?

The farmer is an independent operator and proprietor, like other business men. He either owns or hires land, provides farming equip-

ment, advances his own labor, hires the labor of others, buys the necessary supplies, and produces for the market, taking all the risks in which such operation are involved. The losses which he has suffered since 1920 are the same kind of losses suffered by business men in other lines, as set forth in our September Letter in the figures of income returns of corporations taken from the report of the Bureau of Internal Revenue. Those figures show that every class of business suffered along with the farmer, and for the same reason, to-wit, because of the general disorganization of business and fall of prices, while it was impossible to reduce the costs of doing business to correspond.

The farmer's real pay for what he has to sell in the last analysis comes in the goods and services which he buys, and the amount of these that he gets depends upon the relative prices of his products and the prices of what he buys.

#### **The Federation Policy**

The real explanation of the failure of other things to come down from the war level along with farm products has been the policy of the Federation in systematically fighting wage reductions. The principal item in the cost of all the goods and services which the farmer must buy is labor, and it is the proud boast of the Federation of Labor that where it has been in control there have been very few wage reductions. It permits industries to shut down, wages to cease and production to cease, but its fiat has been that wages must not come down.

We are not questioning that this policy is adopted in the sincere belief that the labor organizations are justified in promoting the interests of their members without regard to the effect of their policies upon anybody else and that it actually does promote their interests. Both of these propositions, however, in themselves are open to question.

A report of the United States Bureau of Labor (Bulletin No. 354) shows as the result of an inquiry into the wages of organized trades having a membership of about 900,000, that on the average in these trades the hourly wage rate on May 15, 1923, was higher than in any previous year, being 9 per cent higher than May 15, 1922, and 111 per cent higher than in 1913. This shows that these wages have been pushed higher even in these recent years of agricultural depression, and the effect has been to increase the disparity between farm products and what the farmer must buy.

Referring to some of the particular industries of whose products the farm population are consumers, we find that hourly wage rates in the woolen and worsted goods industry are now 201 per cent higher than in pre-war years.

These figures appear on page 31 of the Monthly Labor Review, September, 1924, published by the Bureau of Labor, Washington, D. C., and are the result of an examination of the books of 72 mills, located in 9 states, having 41,622 employees. The data for present wages was obtained from the pay-rolls covering the period from January 1st to May 8, 1924.

We find on page 77 of the Labor Review for June, 1924, the results of an inquiry into wages in the cotton cloth industry which shows that in 1924 average hourly wages are 151 per cent higher than in 1913, but approximately 23 per cent lower than in 1923. The data upon which these figures are based were taken from the records of 114 mills in 12 states and covered 77,995 employees.

Similar increases have taken place in the wages of the clothing trades, who make up the products of the textile mills for the market.

We also find on pages 65-67 of the Labor Review the results of an inquiry into the wages of employees of shoe factories, showing that average hourly wages in this industry are 114 per cent higher in 1924 than in 1913, but 8 per cent lower than in 1920 and 3 per cent higher than in 1922. The data for 1924 was obtained from 106 representative factories located in 14 states and cover 45,651 employees.

#### The Cost of Food

It is said in defense of the policy of maintaining these wage rates that the cost of living is correspondingly higher. This is not so in the case of farm products. The most important single item of expense in a workingman's family is food, and the Bureau of Labor collects information monthly as to the retail prices of food in the principal cities of the country. Its report issued last month showing prices in August in 18 cities shows that the weighted average of retail prices of the articles of food entering into the common family ration were higher than in August 1913, by a range from 34 per cent in Memphis to 50 per cent in Detroit.

On that part of the wage-earner's living expenses which are affected by organized labor's wage policy of course he suffers with everybody else. This a back kick which taken in connection with the unemployment resulting from the same cause makes that policy worse than doubtful even from the standpoint of organized labor itself. The higher cost of clothing, shoes, rent, transportation and everything that the workingman buys is traceable to this wage policy. Even the food which he buys, although showing a smaller increase than commodities produced by organized labor is enhanced by the higher cost of transportation and higher wages to everybody who handles it.

The unfairness of that policy toward the farmer stands out clearly. He has been sup-

plying the hides for the wage-earners' shoes at pre-war prices, and buying shoes at prices which included an average increase of fully 100 per cent in the pay of all wage-earners who had anything to do with them, from tanning the hides and making the shoes to transporting the hides and shoes across the country and through city streets. He has been doing his part of the task of supplying bread and meat to the wage-earners on a pre-war basis while paying for practically everything he has had to buy at prices which included wage scales of which the above are samples.

The clothing trades unions were among the first to endorse the third party ticket and are reported as among the main financial supports. The textile unions and shoe workers unions likewise have pledged their support, and it cannot be denied that the highly organized trades have generally come into line. Undoubtedly they expect to strengthen their position in wage-bargaining—that is to say, in fixing the terms upon which their services will exchange for the products and services which they receive from the farmers and others. And they are all depending on the farmer to help them "put it over."

#### A Labor Conference

Addressing a group of labor leaders in Washington, D. C., recently, Senator La Follette declared that "one of the fundamental issues in this campaign is the high cost of living," and proceeded to say:

Living costs started to mount in 1897, artificially increased by the high tariff law and the strangling of competition. We should therefore compare the buying power of the dollar today with what it was then. If we do, we find 40 cents in 1900 would buy more necessities of life than \$1 will purchase now.

The price level of 1897 was the lowest since the civil war, being in the trough of the depression incidental to the Bryan campaign against the country's monetary system in 1896. It was a time of desperately low prices for agricultural products and of widespread unemployment in industry. The entire Bryan campaign was conducted as a protest against the existing low prices and industrial distress, and with the affirmation that while living costs were low few people were able to cover them.

The chairman of the conference of labor leaders at which the La Follette speech was made was Mr. Warren S. Stone, President of the Brotherhood of Locomotive Engineers, and there were present the other brotherhood chiefs who are identified with the La Follette movement and other well known labor leaders, all of whom have been instrumental in securing wage advances for their respective organizations ranging from 150 to 300 per cent above the wage scales of 1897. Was it possible for these men to listen to that speech and not

reflect upon their own part in the rise of the cost of living since that time, or is it possible for men to be so completely absorbed in their own purposes that their minds are oblivious to everything else?

The farmers of North Dakota were selling wheat in those halcyon years, 1896-97, under 50 cents per bushel. The Year-Book of the Chicago Price Current carries a table showing the average cost-price of all hogs slaughtered at western points in each packing-year since 1876, and these figures for the packing-years 1896-7 and 1897-8 were respectively \$3.30 and \$3.63 per cwt. Does the Senator expect to get the cost of living back to the level of those years without lowering either the wages of railroad men or the prices of farm products?

It is doubtful if outside of farm products a single product which is important in the cost of living can be named of which the price-increase since 1897 has not been less than the percentage increase of the wage-rates entering into its production.

#### **The Rights of Labor**

That Labor has the right to strive to better its condition every right-minded person concedes and the law of the land give ample protection to that right. It goes so far as to give the right of combination practically without restriction. The railroad employes have the power to shut down transportation facilities, cutting off the daily supplies of food necessary to the cities and allowing farm products to rot in the fields. The supply of fuel necessary to the industries and to the comfort of the population is dependent upon the miners' union. That the public should be willing for a relatively small part of the population to have even the apparent right to exercise such power shows the general desire that the wage-earning class shall have ample freedom to cope with employers and to protect and better its position. It shows also general confidence that this liberality will not be abused, and although organized labor occasionally has gone to extremes, there has seemed to be good reason to believe that this liberal view is the right one. The wage-earning population is so large a part of the whole that in the broad view its interests cannot be very different from those of society as a whole, and it has seemed reasonable to believe that as a body it would not take any radically different view of its relations to the common interest from that held by the rest of the community.

The wage-earning class is as much interested as any other in policies which will promote general social stability and progress, encourage individual initiative and thrift, and promote that state of harmony, justice and mutual confidence which is necessary to the general prosperity. Obviously this is the

common end for which all groups and classes should strive, and the way to it is by toleration and good understanding, not by attempts on either side to use the authority of the government to compel conformity to its views. Social progress cannot be achieved by attempting to adjust the organization to fit any set of rules. There must be free play for public opinion and for continual experiments, and patience to wait for all settlements to be made at last by general consent.

#### **Labor's Interests**

All of this implies patience on the part of those who press the views of Labor as well as others—patience to discuss the matters about which opinions differ and toleration toward those who oppose some of its proposals. There is nothing lost to Labor if its radicals are held in check or if the organization does not have everything its own way. It is not good for any group of aspiring leaders to have unhampered power; it is better that they be closely responsible to public opinion. The Boston police strike was a mistake, made by leaders who had lost their heads. They did not realize until they got well into it that the relation of the police force to the public is such that the latter could not possibly tolerate any obligations on the part of the members which ranked ahead of their duties to it.

Upon other occasions and in other ways which need not now be specified labor organizations have shown a want of appreciation of their obligation to consider the general interests. Often the acts of which complaint is made are acts for which the organization is not officially responsible, and which possibly the officials condemn. There is reason to believe that this is true of much of the opposition to new machinery and methods. We do not doubt that the labor leaders as a rule are aware that labor in the long run is benefited instead of injured by the introduction of labor-saving machinery, and allowance must be made for the opposition of individual workmen who see their own jobs threatened. Nevertheless, it is a mistaken attitude, and the opposition of organized labor to improvements of this kind constitutes a valid reason why the labor organizations should not have absolute domination over industry. This is not saying that the members or leaders of labor organizations are any different from other people. The laws of the land furnish proof that no other group or class of people is deemed fit to exercise such domination as organized labor at times attempts. It is not urged that new legal restrictions be placed upon organized labor, but when it attempts to exercise its influence upon the votes of its members and reaches out for alliances with other bodies of voters, it is pertinent to ask what use it is likely to

make of the political power it is seeking and what the results will be upon the welfare of the bodies whose help it is soliciting, and upon the community as a whole.

#### The Common Interest Must Be Served

While the legitimate efforts of every group and class to improve their condition are to be encouraged, there is one imperative rule: Such efforts must be consistent with the welfare of the entire community. Neither individuals nor groups can be allowed to advance their own interests by means which are injurious to society as a whole, for if that were permitted all efforts for progress would be nullified in fruitless and hopeless contention. We want the greatest possible freedom for individual initiative and effort and for cooperative effort, but there must be social order and constant regard for the common welfare.

This condition does not narrow the field of constructive effort; it protects all constructive efforts. Not only are there ample opportunities for every group to advance its interests in harmony with the general interests, but in fact these are the only opportunities that give permanent gains. The whole social organization is interdependent and must advance together. Any attempt to push one section ahead of the rest results in disorganization and slows down the progress of the whole.

The labor leaders do not like any better than other people to be told that their policies are mistaken, and anybody who tells them so is likely to be set down as an enemy of labor, but the best friends of labor are those who give it sound advice. Time tells whether policies are sound or unsound, and time is revealing that labor has not been well-guided in its insistence upon high wages and high industrial costs at a time when many industries were depressed and the great agricultural industry in particular was suffering from low purchasing power.

#### The Purchasing Power of Wages

With the low prices that have been prevailing since 1920 for farm products, and with the retail prices of food products as shown by the Bureau of Labor figures, the policy of the labor organizations in maintaining wage-rates at double the pre-war level and higher has had the effect of raising the nominal position of these wage-earners at the expense of the farmers. We say "nominal" position, because the policy in fact has defeated its own purpose by causing so much unemployment that the actual pay in wage-envelopes has been less, in many instances than it would have been if the prices of goods had been lower and more of them had been sold.

The trouble has been that the labor managers in their policy have overlooked the economic law which in the long run regulates the relations between the industries and have also failed to recognize that the real measure of wages is not hourly rates in money, but the actual contents of the pay envelope and their purchasing power.

Upon the subject of purchasing power, the "Labor Banker," a publication issued by the Brotherhood Investment Company and affiliated institutions owned by the Brotherhood of Locomotive Engineers, has recently given an utterance which is so excellent that we reproduce it here:

The tendency upon the part of labor to estimate wages solely in terms of dollars frequently leads to serious economic error. The real significance of the wage labor receives is not the dollar in hand but rather what the dollar will buy. Wages are always comparative. Cheap money means dear commodities; dear money means cheap commodities. The attention of labor is too frequently directed toward the dollar instead of the buying power of the dollar. Stabilization of prices is therefore one of the major economic issues so far as the working classes are concerned.

It is true that "wages are always comparative," and when this is understood it is clear that since 1920 organized labor by its short-sighted efforts to improve its own position has seriously impaired the purchasing power of the farmer.

#### The Textile Industry

The twenty-third convention of the United Textile Workers of America was held in New York City last month, beginning on the 9th. Much was said in the official reports about the depression which has been prevailing in the industry, which has been the worst in many years. The reports of the Secretary-Treasurer revealed that about two-thirds of the members have been exempt from paying dues because of unemployment. The President, Thomas F. McMahon, showed an appreciation of the immediate cause by attributing it mainly to the agricultural depression. His reference to this point, as reported in the Journal of Commerce, was as follows:

The primary reason for the depression in the textile industry, Mr. McMahon said, was "the fact that during the past four or five years, thirty odd millions of farmers have been reduced to such circumstances that they are nearly bordering on bankruptcy. During the years that our industry was in normal condition, the products of our mills were consumed by home consumption to the extent of approximately 95 per cent.

Mr. McMahon gave no recognition of the probability that wage-rates in the textile industry 151 to 201 per cent higher than before the war, and like increases in other industries producing goods which farmers buy, might be a factor in the diminished sales of these goods, but the farmers are well aware of it. Mr. McMahon's interest is centered upon

maintaining the wage scale, regardless of its effect upon real wages, and upon getting a big vote for the La Follette ticket.

No reflection is intended here upon Mr. McMahon's sincerity or purpose to give the best leadership of which he is capable to the textile workers, but it is proper to raise a question as to how the policy to which he is devoted is going to benefit the farmers, and why they should furnish votes to strengthen him and the other labor leaders in political power?

Mr. McMahon probably would tell them to organize as the textile workers have done and then all organized labor will cooperate with them? Cooperate in doing what? In raising prices on each other and in reducing the 48-hour week to 44, and the 44-hour week to 40?

#### **"Wages Are Always Comparative"**

Doubtless Mr. McMahon would say that all the textile workers want is their present wage scale, with such increases as may be necessary from time to time to maintain the present or a rising standard of living, and that the farmers will have their sympathy and assistance in working for like conditions. It is impossible, however, for the farmers to have more for their products without having them cost more to the textile workers. An advance in the prices of farm products, from the level 40 to 50 per cent above the pre-war level to 150 or 200 per cent above the pre-war level will of itself reduce the purchasing power of textile wages. What will the textile workers do then? Demand increased wages to recover their position? If granted that would put the farmers back where they were before.

Or will the textile-workers agree to accept higher prices for farm products with the resulting reduction in the purchasing power of wages, and call the new status permanent? If this is satisfactory the same outcome can be reached by their accepting now a direct wage-reduction of corresponding amount.

There is no getting away from the fact that throughout the industrial organization what one group receives the other groups pay. It is idle to talk about the wages of different groups as though they were unrelated and all came out of the employers. All compensation is relative, "all wages are comparative," and the scheme of raising the standard of living for everybody by simply marking up wages and prices in terms of money is farcical.

The whole scheme for having the compensation of each group in the social organization fixed by itself is utterly impracticable. There could be no such arbitrary determinations without endless strife and confusion. The only equitable basis for differences in compensation is that upon which such differences have been

based in the past—the differences in qualifications required for the varied services, as developed by free choice and competition.

So much emphasis upon group organization and group interests tends to weaken something that is vastly more important, viz., the sense of general social unity. If all the groups which are struggling blindly to advance their own interests regardless of the injury they do to each other would cooperate to advance the interests of the organization as a whole, the benefits to themselves would be vastly greater than from the present narrow policy.

#### **Organized Labor's Black List**

An instructive revelation of organized labor's idea of the Labor-Farmer alliance is afforded by the Labor black list of Congressmen who are candidates for re-election.

The measure in behalf of which the farm organizations concentrated their efforts in the last session was the McNary-Haugen bill, which proposed by artificial means to raise the prices of the principal farm staples to what was designated as "the pre-war parity" with other commodities. The labor leaders were reported to be for it. On the other hand the measure in which organized labor showed the most interest was the Howell-Barkley bill, which originated with the railroad brotherhoods, and proposes to do away with the present railroad labor board and substitute one more to their liking.

Neither bill passed and the friends of each were much disappointed; but the black list shows how much more seriously the labor chiefs took the failure of the Howell-Barkley bill than the failure of the McNary-Haugen bill. The Railway Age has made an analysis of the black list and finds that of a total of 94 members named in it all voted against the Howell-Barkley bill or failed to give the support demanded of them, while of 130 members endorsed for re-election every one voted for the Howell-Barkley bill or was paired in its favor. On the other hand, examining the black list with reference to supporters of the McNary-Haugen bill it is found that 28 of these are slated for defeat while on the list of members endorsed for re-election are 71 who voted against this bill. Evidently Labor's black list was made up without much thought about the McNary-Haugen bill or its prospects in the future.

#### **The Coal Mining Situation**

Two of the most important general factors in the high industrial costs are fuel and transportation, and they have very important bearing upon each other—fuel upon the cost of transportation and transportation charges upon the cost of fuel. Coal-mining is a perilous occupation, which it is generally agreed should

be well paid, but although wages are 100 per cent or so above pre-war rates actual wage receipts are low, because of the great amount of lost time. Two-thirds of the present number of miners working with reasonable regularity could supply all the coal needed and earn higher actual wages at much lower rates. The high rates are an inducement holding men about the mines in idleness, preventing a readjustment of the industry and burdening industry generally.

The situation favors the non-union mines which operate on a lower scale but furnish full time work and have made coal-mining an unprofitable business for the union operators this year.

A curious controversy has arisen out of this artificial situation, between Mr. Warren S. Stone, head of the Brotherhood of Locomotive Engineers and Mr. John L. Lewis, head of the United Mine Workers. Members of the Brotherhood headed by Mr. Stone own the Kanawha Coal River Collieries Company, in West Virginia, which is surrounded by non-union mines, and the United Mine Workers recently have given out copies of a lengthy correspondence between officials of that organization and Mr. Stone. In a preliminary statement from the U. M. W. headquarters, at Indianapolis the following appears:

Ever since the first of April, 1924, the United Mine Workers of America has endeavored to induce Coal River Collieries, through Mr. Stone, to enter into a wage and working agreement for the employment of Union miners in these mines, but the effort has failed. The company's mine in Kentucky is operating on a non-union basis. The four mines of the company in the Kanawha field of West Virginia have been closed since the first of April because of the refusal of the company to make a contract with the United Mine Workers of America in line with the Jacksonville agreement.

The correspondence shows that other matters besides the wage-scale were in controversy. In a letter dated March 30, 1923, addressed to Philip Murray, acting president of the United Mine Workers, Mr. Stone says, in part:

If the whole thing hinges on insisting that we sign the check-off system and allow your Representative to say who shall and who shall not work in the mines, then it will have to come, because we are not going to instruct our manager to sign the check-off system and we intend to have the say as to who can and who cannot work in these mines. No walking delegate or business agent can keep a man in our employ who either uses booze or dope and who does not behave himself and act like an American citizen should act. The boast of some of the agitators in some parts of the country that "they will tell us who we can work and who we cannot work," is a mistake.

We will always pay the men the union scale or better and we will give the miners better treatment than any other mine in the country. Further than that I do not think you should ask and I am sure we should not be expected to grant.

And in another letter, in which Mr. Stone urges the excellent living conditions maintained in the mines in question, he says:

I have no doubt there are many deserving cases of men who would be glad to have a home such as we have built for our miners, and who would be glad to work under living conditions that we are giving to our men, and yet on the other hand, I also know that there are a number of agitators among the ranks of this tent colony that will do everything possible to either keep from working themselves or allow others to work if they can prevent it. In other words, the role of agitator has become a profession with them, and they realize that they have lived for a long period of several months without work, and they do not intend to work in the future if they can work at their present job.

On August 22, 1924, Mr. John L. Lewis, president of the United Mine Workers, writing to Mr. Stone about the failure of his company to put in force the Jacksonville scale, adopted last Spring, said, in part:

It is of course, well known that the Kanawha Coal Operators' Association is making an active fight against our organization and that evictions of our people are taking place, and our Union and its members are being attacked in the courts through every conceivable process. The Coal River Collieries Company, while not a member of the Kanawha coal operators association and while not utilizing the eviction instrument, is in all other respects apparently co-operating with the coal operators. This is an intolerable position for a coal company whose stock is largely owned and affairs are directed by union men to occupy.

Mr. Stone explained in reply that the Brotherhood had made a legitimate investment of a large amount of capital and thought it was entitled to some return on it, a statement which has an appeal for a good many investors—in railroads for instance. He said in part:

We were compelled to close the mines because we did not then, and do not now want to operate a non-union mine, and we closed the mines down, and lost a number of valuable contracts we had, and failed to secure other valuable contracts that we could have secured because your organization demanded that no mines be operated pending the negotiations. For example, we lost one contract for supplying the Boston and Maine with their entire coal supply which we could have secured if you had allowed the men to remain at work.

That we have always been in favor of a union operated mine, and that our sympathies are with the Miners' Union, has certainly been proved by the record of the Brotherhood of Locomotive Engineers. When the miners of West Virginia were at the end of their resources and were hungry, members of the Brotherhood of Locomotive Engineers contributed more than \$100,000.00 to their support, and made it possible for them to live through the winter of the strike. I have the statements of your state officers to prove that this is correct.

You either do not know the true facts of the case, or you are making a statement that is not in accordance with the facts, or else you are laboring under the impression that a coal mine is operated wholly and solely for the benefit of your organization. The members of the Brotherhood of Locomotive Engineers, who have invested over \$3,000,000.00 in these properties, are entitled to some return on their investment, and I think you will concede this, and yet at the present price at which coal is selling, and the cost of mining under the Jacksonville Agreement, it is impossible for the union mines to break even.

Under the 1917 Agreement, it cost us \$1.12 per ton loaded on cars for the actual wages paid to miners without any charge for depreciation or overhead. Under the Jacksonville Agreement of 1924, it costs \$1.63 per ton, without charging any overhead or any return on the investment. The average price at which coal is selling F. O. B. is \$1.50 per ton—not much in-

centive to open a mine or work it under those conditions. We want to run a union mine, and expect to run one if at all, but it is impossible to do so when the non-union fields around us can produce coal so much more cheaply, and have a monopoly on the entire market.

Mr. Lewis came back with a rejoinder which is quite familiar to other coal operators:

Your company occupies no different position in this matter than any other of the thousands of coal companies which have agreements with our organization. The United Mine Workers can not be responsible for problems of management in which they have no voice. The question of efficient management and low cost production to enable you to remain in the market with competing companies is one that must be dealt with by your corporation. It is a problem that forever confronts one who elects to become a coal operator.

Mr. Lewis ended his letter by demanding that the collieries company negotiate an agreement with the union on the basis of the Jacksonville agreement. To this letter Mr. Stone did not reply and the correspondence seems to have ended.

It should be referred to the LaFollette campaign committee, which says that the high price of coal is all due to the exactions of the "coal barons."

#### The Railroad Organizations

The Brotherhood of Locomotive Engineers has been one of the leading sponsors of the La Follette candidacy, and the firemen's and conductors' organization have acted with it. participate, its president, Mr. Lee, declaring that the organization was not in politics and the members would vote as they pleased.

The railroad men are a high-class group, and if comparison is made with some other groups of wage-earners taking account of average personality and responsibilities, it is impossible to say that they are not entitled to the wage increases they have had, if the others are entitled to what they have gained. But that is not the point. The question of the moment is, how much consideration the brotherhoods and other groups of organized labor have shown to the farmers, and what have the latter to gain by cooperating with their votes to put the third ticket over?

The increase in transportation charges has been perhaps the most keenly felt of all the increases which the farmers have had to bear while their own products were depressed, and it is against these increases that the principal La Follette attack is made. Railroad charges, however, must be based upon railroad costs, and we have heretofore shown that railway charges have increased by a smaller percentage than operating costs. These costs are nearly all wages, either to railroad employees direct, or to coal miners and other workers producing railroad supplies of various kinds. We have given heretofore a statement made up by Mr. Markham, President of the

Illinois Central Company, showing the increase of operating costs and of income in the case of that company. A similar statement by the Louisville & Nashville company shows that—

In 1923 it paid \$2.32 for the same amount of coal for which it paid \$1.00 in 1915.

In 1923 it paid \$1.99 for the same amount of materials and supplies for which in 1915 it paid \$1.00.

In 1923 it paid out \$2.98 in taxes on the same property on which in 1915 it paid out \$1.00.

In 1923 it paid out \$2.03 in meeting all of its expenses in supplying the same amount of service as it paid out \$1.00 for in 1915.

In 1923 it received \$1.39 for supplying the same amount of service as for which in 1915 it received \$1.00.

In short, in 1923 the increased income of the Louisville & Nashville was 39 per cent above the 1915 income. But its outgo, or expenses, were 103 per cent above the expenses of 1915.

Mr. Daniel Willard, President of the Baltimore and Ohio, a man of moderate statements, who rose from the Brotherhood of Engineers to the presidency, and whose relations with all the brotherhoods are as good as those of any railroad official, testifying before the Senate Committee on Interstate Commerce in April of this year, made the following statements:

The latest official reports show that the average rate per ton-mile on the American railroads today is 54.63 per cent higher than it was in 1914, as compared with an increase of about 100 per cent on basis of costs. The most reliable reports obtainable also show that the average annual wages of the railroad employees today is approximately 98 per cent higher than they were in 1914, or before the war, and that the rate paid per hour has increased 126.81 per cent as compared with the year 1916.

The price which the railroads, or at least some of them, were obliged to pay for their fuel coal in 1923 was 116 per cent higher than in 1916. The prices paid for lumber, ties, steel, including rails and other representative material, were about 57 per cent higher in 1923 than the average prices during the three years, July 1, 1914, to June 30, 1917, known as the test period. Taxes paid by the railroads in 1923 were 145 per cent higher than in 1914, equal to an increase of \$196,485,000. The official figures of the United States Department of Labor show that the total cost of living in 1923 was 68 per cent higher than in 1914. These figures, which have been carefully obtained from the most reliable sources, fully support the statement that railroad rates today are comparatively lower than in 1914, because the per cent of increase in railroad charges over 1914 is substantially less than the average aggregate per cent of increase in connection with the other items above mentioned.

These figures by Mr. Willard not only show that railroad charges have increased by a lower percentage than railroad wages, but that the industries supplying lumber, ties, steel, and other representative material are doing so at prices relatively lower compared with the 1916 level than the general scale of wages. This confirms all other available evidence showing that wages have advanced more than prices and that the wage-advances more than account for the price advances throughout industry.

It has been only by increased efficiency in the management of operations, and largely by the expenditure of capital for improved facilities, that the railroads have been able to meet the great percentage increase of costs with a much smaller percentage increase of charges.

Thus, the average number of hours worked by each employe in the year 1923 was 2,584, compared with 2,693 in 1920. These are Interstate Commerce Commission figures.

The freight business handled by the railroads in 1923 was 2 per cent larger than that of 1920.

The average number of employes in 1923 was 1,857,713, or 165,119 less than in 1920.

In other words, in 1923 the railroads handled a larger traffic with fewer employes, who worked a fewer number of hours, than in 1920.

The records shows steady gains by improved equipment and efficient management. On September 1 the average carrying capacity per freight car was 44  $\frac{1}{5}$  tons, against 43  $\frac{1}{2}$  tons on January 1, an increase of  $\frac{7}{10}$  of a ton. The average tractive power per locomotive on September 1 was 39,706 pounds, against 39,164 pounds on January 1, an increase of 542 pounds. In the first six months of 1924 the average number of cars in a freight train was 40.7, as compared with 38.9 in the first six months of 1923.

The gross tons per train, exclusive of the locomotive and tender, in the first six months of 1924 was 1,542, as against 1,507 in the first six months of 1923.

#### Railroad Wages

We will not go into the intricacies of the several wage advances and changes in working time of railroad employes, but accept the above figures given by Mr. Daniel Willard.

One reduction from the peak in the wages of enginemen and train men was made in 1921, amounting to about 12 per cent, and on the eastern roads approximately one-half of this has been restored through direct negotiations between the brotherhoods and the companies, the latter preferring to make concessions to avert the possibility of a strike, and for the sake of some concessions by the men in working rules. It may be added that the brotherhoods began negotiations with the companies best able to make concessions, and which in some instances were facing the probability of being obliged to divide excess earnings with the Treasury.

The Western roads, however, have declined to accede to similar demands, and have carried the demands to the railroad labor board, while the brotherhoods have refused to submit the case to that tribunal. There the case of the western roads now stands, with the demands for increases pending. On the other hand, the farmers in that territory are demanding rate-reductions. Both demands certainly cannot be granted. Which has the best claim?

Meanwhile the brotherhoods have enlisted the political influences of the Federation of Labor, with its black list and its endorsements, to carry through the Howell-Barkley bill,

abolishing the railroad labor board, and substituting for the settlement of disputes boards composed entirely of representatives of the employing companies and the employees. The present railroad board is composed equally of representatives not only of the railroad companies and railroad employees but of the public, and the most important change proposed in the Howell-Barkley bill is the elimination of the public representation. This appears to be the principal stake of the brotherhoods in politics at this time, and the principal reason for their anxiety that the farmers shall join hands in the third party movement.

It is for the farmers to consider what prospect there is for lower freight charges, or lower prices for anything they have to buy, through the influences that are seeking this alliance. It is also for the individual members of the various labor organizations to determine for themselves as good citizens whether or not this political venture to which they have been committed is based upon sound and patriotic principles.

#### The Railroad Situation

It seems safe to say that some of the literature emanating from the third party headquarters outdoes for recklessness or ignorance anything ever before offered for public consumption. For instance its campaign handbook contains the statement that the increase in railway rates under the Esch-Cummins law has added \$4,500,000,000 a year to the cost of living. The total gross operating revenues of all the railroads in 1923 was \$6,356,890,737, and their operating expenses and taxes aggregated \$5,280,309,910. Therefore, if we say nothing about any return whatever on the capital investment in the great railroad plant, whether represented by bonds or stock, the margin above actual running expenses was only \$1,076,580,827. If the government had owned the roads free of debt without having to pay anything for them, and had been able to operate them as economically as was the case under private ownership, it would have fallen about \$3,400,000,000 short of saving the \$4,500,000,000 which the third party estimates the rate-increases to have cost. Their calculation in this case is as near right as any of their figures.

A comparison of the results of the Class 1 railways in the calendar year 1923 with those of the fiscal year ended June 30, 1916, shows that operating revenues increased 83 per cent, while operating expenses increased 91 per cent and taxes increased from \$152,093,806 to \$336,381,765, or 121 per cent.

At the same time net income after fixed charges fell from \$604,013,895 to \$562,676,942, or by 6.9 per cent. While higher rates played

an important part in the increase of gross revenues from \$3,472,641,941 in 1916 to \$6,356,890,737 in 1923, the increase of 117,700,000,000 in net ton miles of freight carried, or 34½ per cent, was also a large factor.

It will be seen that the increase of operating expenses and taxes more than ate up all the increase of gross revenues and reduced the amount of net income available for dividends or surplus by over \$41,000,000.

#### **Roads Must Be Financed in Part by Sale of Stock**

In view of the great amount of loose talk about reducing railroad rates it is important to note that a reduction of 9 per cent in net revenues in 1923 would have more than wiped out all there was left for the stock after the payment of fixed charges. And aside from all consideration for the rights of stockholders it must be borne in mind that the stock represents a margin of safety for the bonds. It would be impossible to borrow capital for the railroads by the issue of bonds at the interest rates at which it has been obtained if the bonds were not protected by the additional capital investment which it represented by stock. Money cannot be borrowed upon railroad property, any more than upon other kinds of property unless there is a margin of proprietary capital to safeguard it. In order to have that margin it must be possible to raise the proper proportion of new railway capital by the sale of stock at par, which of course is impossible unless reasonable returns may be earned upon it.

#### **The Commission's Valuation**

One of the outgivings of La Follette press bureau makes the assertion that the tentative valuation of the railroads adopted by the Interstate Commerce Commission is based upon the book values, which are represented by great amounts of watered stock. The Commission has stated that in its computation of values it has disregarded present capitalization. The task of valuing the railroads has been going on for years under the direction of the Commission, and since the expenditures for the services of engineers, accountants, etc., have now reached approximately \$100,000,000, there would seem to be no good reason for discarding the conclusions of the Commission in favor of the irresponsible utterances of this campaign bureau.

Another of the statements of this bureau is that the division of net railway earnings above 6 per cent on the official valuation provided for in the Esch-Cummins law is a farce, only a few small companies having so far made payments to the Treasury on this account. Obviously no division can be calculated until the official valuation is completed and finally

determined. As to none of the large companies has a final settlement been reached.

#### **The Canadian National Railways**

It seems to be the regular practice of the La Follette bureau to disregard invested capital as a factor in the cost of railroad transportation. Young Mr. La Follette has given out a statement representing that the Canadian National Railways, which is the government-owned company operating all the railroad properties that the government as guarantor of bond issues was obliged to take over from several companies, were now on a paying basis, having "changed a deficit of \$37,000,000 in 1921 to a surplus of over \$20,000,000 in 1923."

It is true that as a result of the heavy grain crops of Canada in 1923 the Canadian National railways for the first time covered their operating expenses from earnings, with something to spare, but this is without taking account of interest on the government's previous cash advances or of interest on the bonded debt which the government has guaranteed, principal and interest. Including interest payments which the Canadian government has had to make on account of these railways, and taxes paid, the deficit in 1923 was \$51,697,675, which compares with \$57,960,098 in 1922 and \$56,989,979 in 1921. The Canadian government has been under the necessity of selling more bonds from year to year to meet these deficits.

The same statement represents the railroads of Canada as having reduced freight rates to the pre-war basis, and as similar statements have been in general circulation an explanation as to certain reductions should be made. They are the result of an agreement made by the Canadian Pacific Company twenty-seven years ago as one of the conditions of a government subsidy granted in aid of the construction of one of its western branches. At that time and for years previous railroad operating costs had been declining and the company ventured to bind itself not to advance certain rates above the level at that time.

That our readers may have an account of this rate controversy and of the Canadian railroad situation, not written to influence opinion on this side of the line, we reproduce below a letter appearing in the London Economist of August 30, 1924, from its regular Canadian correspondent, located at Ottawa:

The railway situation is once more a source of embarrassment and anxiety. During the early months of the year the seaward movement of the heavy grain crop of 1923 kept traffic returns very good—indeed, appreciably higher than in the parallel months of 1923, but about the middle of April there began a sharp downward curve which has not been checked. Since it is practically certain that the exportable surplus of wheat will be at least 150 million bushels less from the 1924 crop, the coming months will further aggravate the decline, and Sir Henry Thornton,

the President of the Canadian National Railways, has already prepared the public for a substantial increase in the deficit on the enterprise of which he has charge. Moreover, a grave muddle has developed in connection with what is known as the Crow's Nest Pass agreement. In 1897 the Laurier Government drove a sharp bargain with the Canadian Pacific Railway when the latter was in need of subsidies for the construction of an important branch line in the West. In return for that subsidy the company agreed never to raise above a certain maximum level east-bound rates on grain, west-bound rates on a number of commodities vital to the farming interest. The serious disturbance of economic conditions created by the war forced a temporary suspension of this agreement, as otherwise the railways could not have paid their way. After the war ended there was a partial restoration of the terms of the agreement, but the Progressives kept up a constant pressure for its full revival, and at the end of the last session the King Government yielded to their demands, and by refusing to renew the suspensory legislation, brought back the agreement in full force. The Canadian National system was not included in the bargain, but it is automatically compelled at all points where it competes with the C. P. R. mileage of 1897 to apply Crow's Nest Pass rates. But since 1897 the C. P. R. had added thousands of miles of trackage, and the agreement does not apply to the new mileage. The result is that gross inequalities of rates now prevail on both systems. One shipper, whose loading point is on the C. P. R. mileage of 1897, has a certain rate, while another 20 miles distant must pay a considerably higher scale. This patent discrimination has inevitably generated a great deal of discontent and confusion. The railways contend that the Crow's Nest Pass rates are quite inadequate in view of the existing prices of labor and material, and the Cabinet have fixed a day to hear the arguments of their counsel for a further review of the whole position.

A later despatch from Ottawa to the Wall Street Journal says that the case has been brought before the Dominion Board of Railroad Commissioners. The confusion existing in the rate situation is described as follows:

As practically their only weapon of defence, railways refused to reduce rates except in case of those points which were on Canadian Pacific Railway when agreement was entered into in 1897, claiming that they were within their legal rights in limiting reductions to these points. Immediate result was creation of two sets of rates, which have produced great confusion and charges of alleged discrimination. Not only has this affected territories embraced within terms of Crow's Nest agreement but it has placed outside territories such as British Columbia and maritime provinces at disadvantage. In short, whole rate structure has been completely disorganized.

Railway Board has now been appealed to to remove discriminations. It will presumably first require to be shown that discriminations exist. Then it must determine whether it is within its power to remove these discriminations. Obviously there are only two ways of doing this, either by ordering railways to lower all rates to Crow's Nest level or else to find some means of equalizing rates at higher level than those prescribed by agreement. In the first case, if board holds that lowering all rates will be so injurious to railways as to endanger their financial stability, it will hardly likely make any reduction order. In second case, its hands will be tied by terms of agreement, which can only be changed by act of parliament. It is possible that legality of railways' action in limiting reductions will be referred to courts, which will serve to postpone action until decision is reached. In any event, situation is so complicated that it would seem as if parliamentary action were only way out of the impasse.

Generally speaking, attitude of business interests in eastern Canada is favorable to new rate adjustment on higher level than that of Crow's Nest agreement, so that finances of railways may not be embarrassed. All that is urged is early correction of discriminations.

### Importance of Railroad Credit

The radicals give no attention to the importance of maintaining railroad credit in order that the companies may be able to provide the new capital constantly required for the development of railroad capacity to meet the growth of traffic. The regular increase in the volume of traffic over the last forty years is shown by 10-year periods as follows:

	Tons Carried One Mile	% Increase Over 1883
1883 .....	44,064,923,445	.....
1893 .....	93,588,111,833	112
1903 .....	173,221,278,993	293
1913 .....	297,722,528,693	576
1923 .....	457,000,000,000	937

There is every reason to believe that this growth of traffic will continue. The question of fair compensation to private capital invested in railroad property must be considered not only with regard to what is just treatment to the capital already so invested, but with regard to the returns necessary to obtain the required new capital. It was with regard to both considerations that the Congress in the Esch-Cummins act instructed the Interstate Commerce Commission that in its exercise of authority over charges it should not restrict the aggregate earnings to less than a fair return (now fixed at  $5\frac{3}{4}$  per cent) upon the aggregate value of railroad property. It is not a guaranty of earnings, but an assurance to investors that earnings will not be restricted by public authority to less than a fair return.

Certainly if the capital for railroad development is to be raised by voluntary investment this assurance is a proper and reasonable one to give. More than \$1,000,000,000 of new capital was invested in permanent additions to railroad facilities in 1923, and it is a serious matter that practically all of it was obtained by borrowing and practically none by the sale of stock, simply because the stocks of but few companies can be sold at par in the face of the present anti-railroad agitation. The railroads cannot be permanently financed by borrowing. Either a substantial part of the new capital must be provided as proprietary capital or government ownership is inevitable.

### Government Ownership

What does government ownership promise? What are the fruits of government management in business affairs wherever tried? Railroad expenditures ran wild under the government regime through 1918 and 1919 to March, 1920, and this indifference as to whether the roads paid their own way or not resulted in losses aggregating \$1,800,000,000, which the tax-payers had to meet. The substitution of the time basis for pay instead of piece work, an absurd system of classification for the purpose of increasing wage payments and a general loss of discipline and morale were impor-

tant factors in the increased costs. Under private management costs have been largely reduced, more traffic handled with fewer employees, and the efficiency of operations increased in every way. The reason for it is that somebody is now interested in economical management.

What is the possible gain from government ownership? As shown by figures given above the total net earnings of all the roads available for the stockholders in 1923 after taxes and fixed charges was less than 9 per cent of the gross revenues. That would be the utmost saving if the investment in stocks was wiped out and if government management was as efficient as private management. But the investment in stocks cannot be wiped out where it actually exists, and the valuation work of the Interstate Commerce Commission has demonstrated that in the case of the principal systems there is generally full dollar for dollar value behind their stocks outstanding, and it is not in the power of the Congress, or the Congress and President acting together, to take private property for public uses without paying its fair appraised value. The government through its own agencies and in accordance with an act of Congress has appraised the railroad properties.

It should not be overlooked that the valuation of the Interstate Commission is based upon pre-war costs and does not include the war-time increase, except upon actual additions to property since. Moreover, the great body of railroad bonds outstanding at the outbreak of the war and still outstanding are paying the pre-war rates of interest, and the stocks on the average are not paying more than the pre-war dividend rates. The real returns to the owners have been diminished to the extent of the loss in the purchasing power of money. While the employees have been more than compensated for this loss, railroad capital has had to accept it.

#### Ownership of the Roads

The assailants of the railroads constantly convey the idea that the companies are owned in Wall Street or by a small group of bankers, but this is untrue. In many parts of the country railroad stocks and bonds are a common form of investment. The last report of the Interstate Commerce Commission shows 777,132 holders of railroad stocks. The Pennsylvania Railroad Company at the date of its last report had more than 145,000 stockholders and 30 per cent of its stock was owned by women. The Atchison, Topeka & Santa Fe company at the date of its last report had 64,643 stockholders of whom 29,820 were men and 29,235 were women, the remaining shares being held by 122 insurance companies, 108 educational institutions, 93 religious societies and 89 charitable organizations. The bonds are

largely held by savings banks, insurance companies and public organizations of various kinds.

#### A Few Illustrations

A better idea of the situation as to railroad investments possibly may be had from an examination of the records of representative companies than from general statements.

The Baltimore & Ohio is the oldest trunk line railroad in this country, having been incorporated in 1827. It has passed through reorganizations, so that its complete financial history cannot be given without more space than is available here. However, as late as 1898, the total of capital obligations was \$138,000,000 including funded debt. Since 1900 there has been actually expended in the development and expansion of the system, \$533,300,000. Of this amount, \$447,400,000 was raised by capital stock and funded debt issues and \$86,000,000 from surplus earnings and other sources. It has outstanding \$58,863,000 of preferred stock upon which dividends are limited to 4 per cent, and \$151,945,000 of common stock, of which 70 per cent has been issued since 1900 at \$100 per share. The common stock has not paid more than 6 per cent dividends since 1898, and from March, 1919 to October, 1923, all dividends upon it were suspended. This suspension was to enable the company to carry out the terms of an indenture executed in 1919 securing an issue of \$35,000,000 10-year 6 per cent notes, by which it was obligated in each year beginning with July 1, 1919, after providing for the payment of its fixed charges, to set aside out of net income not less than \$3,500,000 up to a total of \$17,500,000, this sum to be used solely for capital expenditures or for paying off maturing funded debt obligations. The holders of the common stock went without dividends until this undertaking was completed in 1923, since when dividends have been resumed at the rate of 5 per cent per annum.

So much for the capitalization of one of the leading trunk line companies. A considerable part of the funded debt of this company has been drawing only 3½ per cent interest for the past twenty-seven years, but having reached maturity lately the company has been obliged to refund it at higher rates. Averaging the returns on stocks and bonds, the public has had the use of the capital invested in the Baltimore & Ohio railroad at a very low rate. The preferred stock and common stock for each of which the company received \$100 per share have a market value today of about \$60 and \$63 respectively.

#### Efficiency of Management

It is interesting as showing the progressive character of private railroad management to know the increase in the carrying capacity of

the Baltimore & Ohio road between 1900 and 1923, as shown by the figures below:

	Pieces	Capacity	
		Total Average	
Locomotives:		Tractive Power—Lbs.	
July 1, 1900.....	1266	30,681,924	24,235
December 31, 1923.....	2557	116,582,220	45,500
Increase .....	1201	85,900,296	21,350
% of Increase.....	95%	280%	88%
Freight Train Cars:		Tons	
July 1, 1900.....	61,608	1,814,059	29
December 31, 1923.....	98,813	4,703,735	48
Increase .....	37,205	2,889,676	19
% of Increase.....	60%	159%	66%

Over 96% of the company's freight cars are now of steel construction.

In 1900 the company carried 31,900,000 tons of revenue freight, whereas in 1923 the revenue tons carried were 107,250,000, an increase of over 75,000,000 tons, or 236%. The average train load more than doubled during the same period, having been 366 tons in 1900 compared with 793 tons in 1923, an increase of about 427 tons or 117%.

The individual enterprise and management which produced these results is typical of the initiative, energy and foresight that has made this country industrially what it is, but there is no recognition of it in the literature of the third party. Does anybody believe that government management, requiring appropriations by Congress for all improvements, subject to the log-rolling methods and sectional and political influences that are apparent in such government undertakings as river and harbor improvements and public buildings, would be capable of meeting the transportation needs of the country as promptly, effectively and economically as they have been met by this and the other great railroad companies?

#### The Chicago, Milwaukee & St. Paul Railway

The Chicago, Milwaukee & St. Paul Railway is the third largest railroad system of the country, operating 11,011 miles of road, directly serving twelve states. The total capital obligations, including funded debt, in 1900 were \$218,748,500, of which \$47,000,000 was common stock. These obligations have since been increased to \$664,316,915, of which \$233,251,800 is represented by preferred and common stock in approximately equal proportions. The officials affirm that there is no water in any of this capitalization, and certainly there is none in the funded debt, the preferred stock or any of the common stock issued in recent years. If there is any, it has not originated in stock dividends by the present company but in the organization of some of the small companies that in early years became parts of the system. Without going back into these, we know that 60 per cent of the outstanding common stock has been issued since 1900 at \$100 per share. Without question all of the preferred stock was fully paid at \$100 per share.

The company has paid no dividends on either preferred or common stocks since 1917

and the arrearages on these dividends amount to more than all the common stock issued prior to 1900, and these arrearages never can be made up. Not a single issue of its outstanding bonds or stocks has a market value today anywhere near the price at which it was originally sold to the public. The preferred stock is selling now on the market at about \$22 per share and the common at about \$13, and Senator Brookhart argues that the public having "placed these values upon the shares" the government should adopt it as the basis of rate-making in the future!

#### The Chicago & Northwestern Railway

The Chicago & Northwestern is one of the well-known roads of the country, with first class physical facilities and equipment, and for the greater part of its history has been regarded one of the strongest and most efficient companies. Its total stock and bond issues in 1900 amounted to \$198,696,337, of which \$39,114,678 was common stock. Since then its capitalization, including bonds, has been raised to \$427,747,264, of which \$145,156,344 is in common stock. Not to go back of 1900, seventy-four per cent of the common stock now outstanding has been issued at \$100 per share since 1900. The common stock is now receiving dividends at the rate of 4 per cent per annum, barely earned, and the stock, which for eighteen consecutive years paid 7 per cent dividends and sold above par, is now worth on the market about \$62 per share.

This examination of individual companies might be continued indefinitely. There are companies which by reason of strategic location or exceptional management have accumulated large reserves in the past, and now have earnings in excess of what has been named as a "fair return," but under the Esch-Cummins law, now confirmed by the Supreme Court, whatever excess they may have over 6 per cent, must be divided 50-50 with the general public fund for the improvement of transportation. The three examples given show how large have been the bona fide additions to capitalization since 1900, and how untruthful are the representations that the common stocks have no value behind them and are not entitled to dividends. As to this, the valuation of the Interstate Commerce Commission summarizes the entire situation and is an authoritative determination.

#### Agricultural Depression

That there has existed since 1920 a disparity between some of the principal farm staples and the general price level undoubtedly is true, and it has been recognized and deplored in all business circles. Fortunately the situation has been righting itself in recent months, but in some parts of the country the presidential cam-

paing is still being conducted upon the theory agricultural depression has existed only in this country, and was brought on by the Reserve system and Wall Street. The truth is that the situation has been world-wide.

In England, agricultural societies, Parliamentary committees and departmental officials have issued numerous reports in the last two years, all of the same tenor, i. e., describing agricultural distress.

On November 22, 1923, the British Departmental Committee on the Distribution and Prices of Agricultural Produce, under the Ministry of Agriculture and Fisheries, submitted a final report upon extensive investigations.

Reviewing recent movements in agricultural prices, the Committee remark that, in common with practically all other commodities, agricultural products in Great Britain began to rise in price at the outbreak of war and continued to rise without intermission until 1920, when the market prices of most descriptions of agricultural produce reached their highest point in April, and at the same time the wholesale prices of all commodities also reached their maximum. A sharp decline in agricultural prices occurred in 1921, and the decline continued with few interruptions up to the date of the final report. Commenting in general terms the Committee remark that the farmer's main concern "has been, and must be, to reduce costs of production."

The cost of feeding-stuffs and fertilizers has declined, but in his efforts to reduce his labor bill, the farmer is confronted with the position that the fall in the cost of living has failed to keep pace with the fall in the market value of agricultural produce generally. That is to say, the prices realized by the farmer for the goods he produces have been relatively lower during the past two years than the prices which he and his employees have to pay for food and other commodities bought retail.

The Chairman of the Board of the National Bank of New Zealand, addressing the stockholders' annual meeting a few months ago, made an extended defense against criticisms directed at the banks by the agricultural element. He closed his discussion in a conciliatory manner as follows:

If I have been at some pains to reply to criticisms in New Zealand of banks and banking this is not to say that certain classes there, farmers especially, have not merited sympathy. They certainly have. The crisis which came at the end of 1920, after a quarter of a century of prosperity, struck them with a suddenness that must have been stunning. To an onlooker, moreover, it would seem distinctly a good thing for the community that farmers should be awake to their changed position and should be actively discussing means for improving their methods and organizing the business of production. The schemes they discuss—pools, land banks, and so forth—may not always stand analysis, and indeed usually do not, but their very discussion is a sign of mental energy, will spread information, and should lead to the discovery of improvements. It is better that farmers should try to think their position out than that they should sit still.

We have no comments at hand from Argentina, but recently reported the passage of a law there fixing a minimum price on beef animals and providing that this price should be the same in every part of the country, regardless of a distance from market, which indicates the state of excitement that has prevailed there. This legislation has been since repealed.

A recent report by the British Consul at Montevideo, Uruguay, says that the country suffers from an adverse trade balance owing to the low price of meat products. He adds:

Restoration of European demand for meat is a factor over which Uruguay has no control, but general impression is that the worst stage has been passed. Trade returns and customs receipts show steady improvement.

Cocoa is an agricultural product of importance in the northern countries of South America and adjacent islands. The United States Consul at Trinidad in a recent report has the following to say about the industry:

The present unpromising position of the cocoa industry of Trinidad and Tobago and also the neighboring colony of Grenada, is a matter of very serious concern from the standpoint of the prosperity of these West Indian islands, whose main support in the past has been cocoa growing. This is now the third year of serious depression in the cocoa industry. In Trinidad, there are over 700 large plantations producing cocoa, in addition to what is grown in a small way by the local peasantry. The greater number of the local cocoa properties are heavily mortgaged, and find it impossible to meet the interest charges. A moratorium has prevented foreclosure sales, and this moratorium seems likely to be indefinitely continued, as holders of the mortgages make little or no objection, not wishing to take over the properties. The depression in the cocoa industry is partly due to the unsettled conditions in Central Europe, but it is more especially due to the enormously increasing output of cheaply-grown cocoa from West Africa. This cocoa produced by natives on their own tribal lands and with cheap labor, can be put on the European and American markets at prices much below the lowest cost of production in Trinidad.

The London Times of recent date has a letter from its regular correspondent in Moscow, who describes some of the perplexities with which the Soviet government is confronted. Senator Brookhart, who has a good deal to say about the unbalanced relations at home, apparently overlooked them in Russia:

The crux of the matter is that at present in Russia the prices of grain and other produce of the villages do not correspond with the prices of manufactured goods. The price of grain is lower than before the war, and the prices of manufactured goods are several times higher.

The discrepancy between the prices of the produce of the towns and villages has reduced the internal market to a considerable degree, and the village market is still narrower than the urban. Last year, 70 per cent of the manufactured goods was disposed of in the towns and only 30 per cent in the villages; the town population in Russia is 10,000,000, and the village population 120,000,000. The nationalized industry is incapable of placing its produce, however insignificant.

The nationalized industry is constantly experiencing a crisis of over-production. To remedy this situation, the Soviet Government last year was persistently "concentrating" the industries—instead of several concerns being worked, production was limited to one concern. This concentration doubtless resulted in some economy, yet the prices were not perceptibly lowered and the crisis of over-production still endures. The population is impoverished and has lost its purchasing power. The Soviet Press loudly deplores this condition of affairs, which is also discussed by the Bolsheviks at their congresses. The Soviet Government lacks funds and cannot continue to accumulate stocks of manufactured goods.

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